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SUBJECT: Capitalizing on Taiwan Cache: The Fuzhou Cross-Strait Trade Fair

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(U) This message is sensitive but unclassified. Please handle accordingly.

11. (SBU) Summary: Taiwan-based and -invested companies displayed their wares to an eager crowd at Fuzhou's annual Cross-Strait Trade Fair. Taiwan agricultural produce occupied a prominent spot at the fair, following on China's 2005 elimination of tariffs on ten types of agricultural imports from Taiwan. Mainland customers are willing to pay higher prices for Taiwan produce, liquor, and other products because of the higher quality associated with them. Chiang Pin-Kung, Vice Chair of Taiwan's Kuomintang (KMT) party, spoke at the fair's opening ceremony about the need for closer cooperation between the two sides and his hope that direct links would eventually be established. End summary.

Background on Fujian-Taiwan Trade and the Fair

12. (U) Taiwan is Fujian's largest source of imports and its third largest trading partner. More than 10,000 Taiwan-invested enterprises are based in Fujian, according a speech given at the fair by Fujian Vice Governor Huang Xiaojing. Fujian imports from and exports to Taiwan have both been growing by 30-40 percent per annum in recent years and the Fujian-Taiwan trade volume reached USD 5 billion in 2005. Fujian and Taiwan have passenger "mini-links" between the Fujian port cities of Xiamen and Mawei and the Taiwan islands of Kinmen (Jinmen) and Matsu (Mazu) (see reftel A). Other Fujian cities, including Fuzhou, Xiamen, Zhangzhou, Quanzhou, Putian, and Ningde, have cargo "mini-links" to Jinmen and Matsu. The annual number of Taiwan visits to Fujian topped 500,000 in 2005.

13. (U) According to trade fair press reports, 185 exhibitors were present at the fair, 153 of which were enterprises based in Taiwan or with Taiwanese investment based in the mainland. Foreign attendees, most of whom came from Hong Kong, Taiwan and ASEAN nations, signed 275 cooperation projects with a total foreign investment of USD 1.5 billion. However, U.S. investment at the fair, which totaled USD 129 million, for the first time exceeded ASEAN investment, valued at USD 59 million. Chinalco Ruimin Co. Ltd, China's leading manufacturer of fabricated aluminum, received the single largest foreign investment, worth USD 75 million.

Taiwan KMT Vice Chair: Agricultural Cooperation and Direct Links

¶4. (U) KMT Vice Chair Chiang Pin-Kung, who led the KMT's first official delegation to mainland China in March 2005, spoke at the opening ceremony of the trade fair. He was treated as the special guest of honor, second only to Fujian Governor Huang Xiaojing in terms of protocol. In his speech Chiang said his ancestral roots lie in Fujian, as do those of 80 percent of Taiwanese. He described economic ties between Fujian and the mainland as strong, and said no Taiwan enterprise could afford to miss out on the mainland's business opportunities, and called for more joint exchanges between Fujian and Taiwan to utilize comparative advantages. Chiang also highlighted the importance of the mini-links between Taiwan and the mainland, as well as chartered direct flights during the Spring Festival. He added that he looked forward to the day when direct postal, passenger, and shipping links will make Fujian an even more valuable trade partner with Taiwan.

¶5. (U) Chiang also spotlighted efforts to increase cross-strait agricultural trade, saying that Fujian has set up a marketing center to help Taiwan companies sell their agricultural produce in Fujian. In addition, Fujian's Taiwan Agricultural Experiment Zone, which originally covered only Fuzhou and Zhangzhou cities, has been expanded to the entire province (see reftel B).

Taiwan Produce and Liquor: A Special Appeal

¶6. (SBU) One of the largest exhibitors at the fair was Chaoda Modern Agriculture Group, a mainland-based company that operates 30 farms in South China and is listed on the Hong Kong Stock Exchange. The company sells itself as an ecologically sensitive and organic grower of fruit and

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vegetables. Chaoda also imports Taiwan produce -- indeed, after China eliminated import tariffs on ten different kinds of Taiwan fruits and vegetables in spring 2005, Chaoda imported the first batch and sold them at the cross-strait fair. (Note: The zero-tariff policy for some Taiwan produce came in the wake a visit to the mainland by former KMT chair Lien Chan. End note.) Sales of Taiwan fruit in the mainland have reportedly surged despite their higher cost than domestically grown fruit. When asked why, a Chaoda sales representative at the fair said Taiwan fruit is of a higher quality than mainland fruit and thus demands a higher price. He said mainland Chinese, especially southerners, value fresh produce -- motioning to the large crowds of customers around his booths.

¶7. (SBU) Exhibition booths for products from the Taiwan-held islands of Matsu, Kinmen, and Penghu all held prominent spots in the main hall of the fair. In the Matsu area, three different makers of sorghum liquor competed for customers. A sales representative for the Matsu Chungkao brand, who was born and raised on Matsu (which has a population of less than 10,000), said his company decided to come to the fair after observing the success of its two rivals in their mainland sales. He described the fair as primarily an opportunity to build a brand name in the mainland market. When asked why the company does not produce its liquor on the mainland to reduce costs, he scoffed and said the different climates would significantly compromise quality. He described the mainland's import procedures are fairly straightforward but added that tariffs are still too high for his product.

A Sign of the Times: C. Straits Cafe

¶8. (SBU) A rapidly growing restaurant chain on the mainland, C. Straits Cafe (Liangnan Kafe) has found success by embracing the issue of Taiwan-mainland relations. The company is owned by a married couple, in which the husband

is from Taiwan and the wife is from the mainland (Hangzhou). The company, founded 12 years ago, has over 300 restaurants on the mainland and plans to reach 500 by the end of 2006. When asked whether the association with Taiwan has brought any negative repercussions, a regional marketing manager said the contrary is true, as the company has handled the cross-strait issue to its advantage. She said the owners are both adamant supporters of reunification and oppose Taiwan's independence movement. Indeed, the company's logo has an arch spanning its two sides and the restaurants are adorned with a slogan that reads "successful communication begins with two sides."

Comment

19. (SBU) Though the trade fair included exhibitors from a wide array of industries, including Taiwan high-tech companies and mainland industrial parks, those selling agricultural goods are enjoying increasing prominence since the mainland's 2005 tariff cuts. The Taiwan cache clearly resonates for mainland customers, and is an opportunity for Taiwan SMEs to find a market on the mainland if they have not already. C. Straits Cafe has hit the right notes politically for business on the mainland. Not surprisingly, with a message that is unabashedly pro-reunification, the company does not operate any restaurants in Taiwan.

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